

# MONETARY & CREDIT INFORMATION REVIEW



Volume XVI Issue 4 October 2020



MCIR

## I. Monetary Policy

### Governor's Statement on October 9, 2020

Shri Shaktikanta Das, Governor, in his statement given on October 09, 2020, welcomed the new members of the Monetary Policy Committee (MPC) and thanked them for their valuable contributions to the setting and conduct of monetary policy in India. He also thanked teams in the Reserve Bank for their analytical support and logistic assistance. The newly appointed MPC with Dr. Ashima Goyal, Professor Jayanth R. Varma and Dr. Shashanka Bhade as external members met on October 07, 08 and 09, 2020 in its first meeting and the 25<sup>th</sup> under the monetary policy framework that was instituted in June 2016.

The major highlights of the Governor's statement are outlined below:

#### Charting the Recovery

- After the steep decline into which the global economy plunged in the second quarter of 2020, global economic activity appears to have rebounded sequentially in the third quarter, but unevenly among and within economies.
- The Indian economy is entering into a decisive phase in the fight against the pandemic. Relative to pre-COVID levels, several high-frequency indicators are pointing to the easing of contractions in various sectors of the economy and the emergence of impulses of growth.
- In this environment, the focus must now shift from containment to revival. Undeterred by the pandemic, the rural economy looks resilient.
- Some of this optimism is being reflected in people's expectations. In the September 2020 round of the RBI's survey, households expect inflation to decline modestly over the next three months, indicative of hope that supply chains are mending.
- The manufacturing purchasing managers' index (PMI) for September 2020 rose to 56.8, its highest mark since January 2012, supported by acceleration in new orders and production. The services PMI for September at 49.8 remained in contraction but has risen from 41.8 in August.
- There is currently an animated debate about the shape of the recovery. Will it be V, U, L, or W? More recently, there has also been talk of a K-shaped recovery. It is likely to predominantly be a three-speed recovery, with individual sectors showing varying paces, depending on sector-specific realities.
- The modest recovery in various high-frequency indicators in September 2020 could strengthen further in the second half of 2020-21 with progressive unlocking of economic activity.

#### Financial Market Guidance

- Over the last few weeks, there has been some disconnect between the rationale underlying the RBI's debt management and monetary operations on the one hand, and expectations in the market, on the other.
- As the monetary policy authority with the responsibilities for development and regulation of financial markets and the management of public debt, the RBI has prioritised the orderly functioning of markets and financial institutions, easing of financing conditions and the provision of adequate system-level as well as targeted liquidity.
- Notwithstanding an augmented market borrowing programme for 2020-21, the issuances for the first half of the year have been seamlessly managed both for the centre and the states. The weighted average cost of borrowings by the central government during the first half of 2020-21 at 5.82 per cent is the lowest in the last 16 years.
- Market participants should be assured that in keeping with the monetary policy stance
- Announced on October 9, 2020, the Reserve Bank will maintain comfortable liquidity



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## Note from the Editor

Welcome to yet another edition of the Monetary and Credit Information Review (MCIR). This monthly periodical of the RBI helps keep abreast with new developments and important policy initiatives taken by the RBI during the month of October in the world of money and credit. MCIR can be accessed at <https://mcir.rbi.org.in> as well as by scanning the QR code.

Through this communication tool, we aim to share information, educate, and stay in touch while ensuring factual accuracy and consistency in disseminating the information.

We welcome your feedback at [mcir@rbi.org.in](mailto:mcir@rbi.org.in)

Yogesh Dayal  
Editor

conditions and will conduct market operations in the form of outright and special open market operations.

- Yields in the government securities (g-sec) market, both primary and secondary segments, also need to evolve in alignment with the comfortable liquidity conditions.
- Financial market stability and the orderly evolution of the yield curve are public goods and both market participants and the Reserve Bank have a shared responsibility in this regard.
- The augmented borrowing programme for 2020-21 has been necessitated due to the exigencies imposed by the pandemic in the form of the fiscal stimulus and the loss of tax revenue.

To read the Governor's full statement, please click [here](#).

## On Tap TLTRO

The Reserve Bank on October 21, 2020 decided to conduct On tap Targeted Long-term Repo Operations of up to three years tenor for a total amount of up to ₹1,00,000 crore at a floating rate linked to the policy repo rate. Liquidity availed by banks under the scheme has to be deployed in corporate bonds, commercial paper and non-convertible debentures issued by the entities in specific sectors over and above the outstanding level of their investments in such instruments as on September 30, 2020. Liquidity availed under the scheme can also be used to extend loans and advances to these sectors. To read more, please click [here](#).

## Statement on Developmental and Regulatory Policies

### Liquidity Measures and Financial Markets

#### On Tap TLTRO

The Reserve Bank decided to conduct on tap TLTRO with tenors of up to three years for a total amount of up to ₹1,00,000 crore at a floating rate linked to the policy repo rate. The scheme will be available up to March 31, 2021 with flexibility with regard to enhancement of the amount and period after a review of the response to the scheme.

#### SLR Holdings in HTM category

To give more certainty to the markets about the status of Held to Maturity(HTM) investments in SLR securities after March 31, 2021, the Reserve Bank decided to extend the dispensation of enhanced HTM (Held to Maturity) limits of 22 percent up to March 31, 2022 for securities acquired between September 1, 2020 and March 31, 2021.

#### OMOs in State Developments Loans (SDLs)

To improve liquidity and facilitate efficient pricing, the Reserve Bank decided to conduct open market operations (OMOs) in SDLs as a special case during the current financial year. The OMOs would be conducted for a basket of SDLs comprising securities issued by states.

#### Support to Exports

##### Automatic Caution Listing of Exporters

In order to make Export Data Processing and Monitoring System (EDPMS) more exporter friendly and equitable, the Reserve Bank decided to discontinue the Automatic Caution-listing and will continue with caution-listing based on the case-specific recommendations of the AD bank.

### Regulatory Measures

#### Revised Limit for Risk Weight

In terms of the value of exposures, it has been prescribed that the maximum aggregated retail exposure to one counterparty should not exceed the absolute threshold limit of ₹5 crore. In order to reduce the cost of credit for this segment consisting of individuals and small businesses (i.e. with turnover of upto ₹50 crore), and in harmonisation with the Basel guidelines, the Reserve Bank decided to increase this threshold to ₹7.5 crore in respect of all fresh as well as incremental qualifying exposures.

#### Rationalisation of Risk Weights

Recognising the criticality of real estate sector in the economic recovery, given its role in employment generation and the interlinkages with other industries, the Reserve Bank decided, as a countercyclical measure, to rationalise the risk weights by linking them only with LTV ratios for all new housing loans sanctioned up to March 31, 2022.

### Financial Inclusion

#### Review of the Co-origination Model

The Reserve Bank had, in 2018, put in place a framework for co-origination of loans by banks and a category of Non Banking Financial Companies (NBFCs) for lending to the priority sector subject to certain conditions. Based on the feedback received from the stakeholders, to better leverage the respective comparative advantages of the banks and NBFCs in a collaborative effort, and to improve the flow of credit to the unserved and underserved sector of the economy, the Reserve Bank decided to extend the scheme to all the NBFCs (including HFCs), to make all priority sector loans eligible for the scheme and give greater operational flexibility to the lending institutions, while requiring them to conform to the regulatory guidelines on outsourcing, KYC, etc.

### Payment and Settlement Systems

#### Round-the-Clock availability of RTGS

To support the ongoing efforts aimed at global integration of Indian financial markets, facilitate India's efforts to develop international financial centers and to provide wider payment flexibility to domestic corporates and institutions, the Reserve Bank decided to make available the Real Time Gross Settlement System (RTGS) system round the clock on all days.

#### Perpetual Validity for Certificate of Authorisation (CoA) issued to PSOs

To reduce licensing uncertainties and enable PSOs (Payment System Operators) to focus on their business and optimise utilisation of scarce regulatory resources, the Reserve Bank decided to grant authorisation for all PSOs on a perpetual basis, subject to certain conditions.

To read the full statement, please click [here](#).

## Monetary Policy Report

The Reserve Bank on October 09, 2020 released the bi-annual 'Monetary Policy Report (MPR) October 2020'. The highlights of the MPR are:

#### Macroeconomic Outlook

Supply bottlenecks and higher taxes pushed inflation above the upper tolerance band of the target. Downside risks from

a delayed vaccine, persistence of supply bottlenecks, volatile international financial markets and high food inflation acquiring a structural character are clear and present dangers to the macroeconomic outlook.

#### Prices and Costs

A broad-based elevation in consumer price index (CPI) inflation between March and July 2020 emanated from tight demand-supply balances in protein-based food items, floods damaging the output of vegetables, increase in retail margins due to the pandemic, tax increases in petrol and diesel, safe haven demand for gold and cost-push pressures.

#### Demand and output

After an unprecedented decline in fixed investment, private consumption and exports in Q1:2020-21, aggregate demand recorded sequential improvement in Q2 on the back of robust rural demand and some upturn in urban consumption. On the supply side, the steep decline in manufacturing and plummeting construction activity in Q1 was followed by a gradual easing of contraction in Q2.

#### Financial Markets and Liquidity Conditions

During H1:2020-21, domestic financial markets returned to normalcy with a recovery in trading volumes, narrowing of spreads and rebounds in financial asset prices. Equity markets recovered strongly from panic sell-offs in March tracking global movements. The Indian rupee (INR) appreciated vis-à-vis the US dollar with the return of investor appetite for EME assets. In the credit market, transmission has improved considerably relative to the historical experience.

#### External Environment

The global economy is still reeling under the impact of the unprecedented shock caused by COVID-19. Even as high frequency indicators suggest that the economic activity may have begun to bottom out in Q3, the near-term outlook remains hostage to the virus and the attendant uncertainty regarding its vaccine. Inflation has remained largely subdued and below central banks' target for advanced economies (AEs) as also for some emerging market economies (EMEs). To read the full report, please click [here](#).

## II. Regulation

### Submission of returns - Extension of Time

The Reserve Bank on October 13, 2020 extended the period for furnishing of the returns by State Co-operative Banks and Central Co-operative Banks under Section 31 read with Section 56 (t) of Banking Regulation Act, 1949 for the financial year ended on March 31, 2020 by a further period of three months in terms of the first proviso to the above section. Accordingly, all State Co-operative Banks and Central Co-operative Banks shall ensure submission of the aforesaid returns to the Reserve Bank and NABARD on or before December 31, 2020. To read more, please click [here](#).

### Revised Limit for Risk Weight

The Reserve Bank on October 22, 2020 increased the above threshold limit of ₹5 crore for aggregated retail

retail exposure to a counterparty to ₹ 7.5 crore. The risk weight of 75 per cent will apply to all fresh exposures and also to existing exposures where incremental exposure may be taken by the banks upto the revised limit of ₹ 7.5 crore. The other exposures shall continue to attract the normal risk weights as per the extant guidelines. To read more, please click [here](#).

### Review of HFCs Regulatory Framework

The Reserve Bank on October 22, 2020 decided to exempt Housing Finance Companies (HFCs) from section 45-IB (Maintenance of percentage of assets) and section 45-IC (Reserve fund) of the Reserve Bank of India Act. The corresponding provisions of section 29B and 29C of the National Housing Bank Act, 1987 will, however, be applicable to HFCs. Further harmonisation between the regulations of HFCs and NBFCs will be taken up in a phased manner in the next two years so as to ensure that the transition is achieved with least disruption. To read more, please click [here](#).

### Grant of Ex-gratia Payment

The Reserve Bank on October 26, 2020 advised all lending institutions to be guided by the provisions of the Scheme announced by the Government of India for grant of ex-gratia payment of difference between compound interest and simple interest for six months to borrowers in specified loan accounts (March 01, 2020 to August 31, 2020) (the 'Scheme') on October 23, 2020, which mandates ex-gratia payment to certain categories of borrowers by way of crediting the difference between simple interest and compound interest for the period between March 1, 2020 to August 31, 2020 by respective lending institutions. To read more, please click [here](#).

## III. Foreign Exchange Management

### Caution/De-caution Listing of Exporters

The Reserve Bank on October 09, 2020 revised the module for 'Caution/ De-caution Listing of Exporters' in the EDPMIS with a view to make system more exporter friendly and equitable. Under the revised procedure, an exporter would be caution-listed by the Reserve Bank based on the recommendations of the AD bank concerned, depending upon the exporters track record with the AD bank and investigative agencies.

The AD bank would make recommendations in this regard to the Regional Office concerned of the Foreign Exchange Department of the Reserve Bank in case the exporter has come to the adverse notice of the Enforcement Directorate(ED)/Central Bureau of Investigation (CBI)/Directorate of Revenue Intelligence (DRI)/any such other law enforcement agency and/or the exporter is not traceable and/or is not making sincere efforts to realise the export proceeds. Similarly, the AD bank would also make recommendations to the Regional Office of the Reserve Bank for de-caution-listing an exporter as per the laid down procedure. To read more, please click [here](#).

## IV. Payment and Settlement Systems

### Streamlining QR Code Infrastructure

After examining the recommendations and the feedback received on the report of the Committee to review the current system of Quick Response (QR) Codes in India and suggest measures for moving towards interoperable QR Codes. The Reserve Bank on October 22, 2020 decided the following:

- ❑ The two interoperable QR codes in existence – UPI QR and Bharat QR – shall continue as at present.
- ❑ Payment System Operators (PSOs) that use proprietary QR codes shall shift to one or more interoperable QR codes.
- ❑ No new proprietary QR codes shall henceforth be launched by any PSO for any payment transaction.
- ❑ RBI shall continue a consultative process to standardise and improve interoperable QR codes, to enable beneficial features identified by the Phatak Committee.
- ❑ PSOs may take initiative to increase awareness about interoperable QR codes.

To read more, please click [here](#).

### SRO for Payment System Operators

The Reserve Bank on October 22, 2020 finalised the Framework for Grant of Recognition as a Self-Regulatory Organisation (SRO) for Payment System Operators (PSOs), based on the comments and suggestions received on the draft framework. Reserve Bank of India's Payment and Settlement Systems Vision 2019-21, envisaged the setting up of a Self-Regulatory Organisation (SRO) for Payment System Operators (PSOs). The [Statement on Developmental and Regulatory Policies](#) of the Reserve Bank of India (RBI), as part of its [Sixth Bi-monthly Monetary Policy Statement – 2019-20](#), announced putting in place a Framework for Establishing a SRO for PSOs. To read more, please click [here](#).

## V. Data Releases

Important Data Releases by the Reserve Bank in the month of October 2020:

## State Finances: A Study of Budgets of 2020-21

The Reserve Bank on October 27, 2020 released the report titled "[State Finances: A Study of Budgets of 2020-21](#)", an annual publication that provides information, analysis and an assessment of the finances of state governments for 2020-21 against the backdrop of actual and revised (or provisional accounts) outcomes for 2018-19 and 2019-20, respectively. The theme of this year's Report is "COVID-19 and its Spatial Dimensions in India".

#### Highlights of the study:

- ❑ States' consolidated gross fiscal deficit (GFD) is placed at 2.8 per cent of GDP for 2020-21;
- ❑ The consequent rising levels of debt and guarantees pose risks to state finances, going forward.
- ❑ Sustaining the recovery from the pandemic will entail boosting investment in health care systems consistent with demographic and co-morbidity profiles; building digital infrastructure for more efficient provision of public services; upgrading the urban infrastructure; and increasing engagement of local governments.

To read the full publication, please click [here](#)

## VI. Research

### RBI Working Paper Series

The Reserve Bank under the Working Paper Series placed on its website a Working Paper titled "[Bank Capital and Monetary Policy Transmission in India](#)" authored by Silu Muduli and Harendra Behera. The paper examines the role of bank capital in monetary policy transmission in India during the post-global financial crisis period. Bank capital channel explains how monetary policy can affect bank lending by impacting the overall capital position of a bank. Thus, capital can have an important role in both lending and borrowing behaviour of banks. To read the full paper, please click [here](#).

**K L Rahul**  
Cricketer & RBI Employee

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